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SENSITIVE
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SUBJECT: MICRONESIA DISSATISFIED WITH EU FISHING AGREEMENT

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¶1. Summary: The Federated States of Micronesia (FSM) reportedly is intentionally delaying issuance of fishing licenses to European Union (EU) flagged vessels in reaction to the EU's late access fee payments and because it wants to renegotiate the 2003 FSM-EU Economic Partnership Agreement (EPA). End summary.

DELAY TACTICS

¶2. The FSM government reportedly feels the terms of the 2003 EU-FSM Economic Partnership Agreement does not provide it appropriate financial compensation for its fish stock, the FSMs most valuable natural resource. Fishing licensing fees are important to the GFMS, accounting for nearly 25 percent of its revenues from non-aid sources. According to Gainmore Zanamwe, a trade policy analyst to the FSM Department of Resources and Development, the GFMS asked the EU to pay higher access fees, but EU negotiators are not willing to revisit the terms of the agreement. Zanamwe stated that the EU insists that the agreement already provides generous compensation compared to the FSM's agreements with China. Adding to the friction, Zanamwe noted, is the fact that the EU is slow in paying its yearly dues. Confirming the late payments, Peter Konings, an EU consultant to the FSM Department of Resources and Development, disclosed that the FSM is retaliating against the EU by holding up individual EU ship licenses. In fact, he said, three Spanish purse seiners departed Micronesia without licenses after being frustrated by repeated delays.

AGREEMENT TERMS

¶3. The EU-FSM EPA provides EU fishing fleets with access to one of the last great tuna stocks on earth. The EU's agreement with the FSM was its third in the western central Pacific, the others being with Kiribati and the Solomons. Expiring in 2012, the EU-FSM EPA allows the EU to operate six purse seine vessels and 12 longliners simultaneously in the waters of Micronesia for a period of three years, with an option to request additional vessel licenses in the future. The agreement fixed compensation at EUR 559,000 (approx. USD 875,785) per year, to increase by EUR 65,000 (approx. USD 102,000) per additional vessel. EU vessels are permitted to catch a total of 8,600 tons per year; if catches exceed 8,600 tons, the EU must pay an additional EUR 65 (approx. USD 102) per ton.

SIZE DOESN'T MATTER

¶4. The agreement fails to specify the maximum seiner size

allowed for EU vessels. Vessels licensed under the agreement are flagged in France, the United Kingdom, Portugal and Spain, and include three of the largest and most modern tuna seiners in the world. These giant Spanish vessels, known as "super super" seiners, have the capacity to freeze 200 tons of tuna a day and to hold up to 2,200 tons at a time. On an annual basis, just one of these vessels can nearly match the combined catch for the entire FSM tuna fishing fleet.

SUSTAINABILITY

¶5. Noting that the EU-FSM EPA is almost identical in both compensation and fishing allotments to many of the EU agreements with West African nations, Zanamwe said he fears the FSM could face a decline in fish stocks similar to that already experienced along the coast of West Africa. In an effort to promote sustainability, the EU-FSM EPA allocates 18 percent of the proceeds the FSM receives toward the National Oceanic Resource Management Authority (NORMA), the FSM national agency entrusted to guard and manage marine resources in the FSM's Exclusive Economic Zone (EEZ). The balance of the proceeds from access fees go into the FSM's general treasury.

FSM LIMITATIONS

¶6. A number of constraints limit the FSM's ability to realize returns from fishing commensurate with the value of the commodity. These constraints include institutional weaknesses in oversight and enforcement, the grossly unequal economic and political power of the negotiating parties, undercutting competition by other Pacific Island countries, and insufficient data collection and surveillance capabilities. Also, because the fish is transported offshore for all processing, the FSM receives no revenue from value-added services.

EU SUBSIDIES

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¶7. EU fleet owners pay only 35 percent of the FSM's access fee; the rest is paid by the EU. Fleet owners also receive from the EU money for vessel construction and transfer, tax breaks on fuel costs, and funding for onshore facilities. These subsidies often enable EU fishing fleets to out-compete domestic fishermen. Although the EU is loathe to renegotiate its EPA with the FSM, it is allowed under the "non-discrimination" terms of the EPA to negotiate more favorable terms should the FSM decide to enter into a more favorable agreement with a competing distant water fishing nation.

BY-CATCH

¶8. The EU-FSM EPA makes no reference to the capture of vulnerable marine species by EU fishing vessels despite the fact that long-lining and purse seining are associated with the by-catch of sharks, sea turtles, marine mammals and seabirds. High by-catch levels also have serious implications for the sustainability of fish stocks because they contain high levels of juvenile at-risk by-catch species. Yet, the EU-FSM EPA gives EU boats blanket exemptions within the FSM EEZ from by-catch regulations to which the FSM's own fishermen must adhere or face possible fines. Indeed, most EU fishing agreements with developing countries do not specify by-catch limits, even though domestically the EU has attempted to minimize the destructive environmental effects of commercial fishing by setting out strictly defined criteria governing fishing gear, by-catch limits, and regulations obliging fishermen to use by-catch reduction devices.

COMMENT

¶9. The EU holds or is currently negotiating separate EPAs with 77 countries. It appears uninterested in a collective agreement with blocs of countries. Without collective bargaining power in concert with other Pacific Island countries, the FSM is quite unlikely to succeed in negotiating a fishing agreement with the

EU containing the three key elements it needs, which are EU involvement in locally-based fish processing plants, stronger regulations on the harvesting and exportation to EU markets of fish caught in FSM waters, and additional export duties on fish either processed or shipped raw from FSM waters. Its tuna stocks are the FSM's greatest natural resource, but until the improbable day it makes common cause with its neighbors, Micronesia will continue selling its patrimony for a fraction of its true value. End comment.
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